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Michael A. Hennessy

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The Fall and Rise of Free Enterprise: State Intervention in Canadian Shipbuilding, 1945-1966

MICHAEL A. HENNESSY

Résumé

Within the growing literature on Canadian industrial policy, relatively little attention has been paid to the shipbuilding sector. This paper identifies and explores the distinct phases of government intervention in shipbuilding from 1945 to 1965. With the formation of the Canadian Maritime Commission, intervention took many forms, which reflected contradictory, conflicting, and competing interests. Over this period, intervention ranged from aiding reconversion to sustaining marginal yards for national security reasons. Defence considerations would play the largest role throughout this era. In examining the varied interests reflected in the deliberations of the Maritime Commission and the Departments of Defence Production, Finance, and Industry, this study demonstrates that defence policy cannot be ignored when assessing industrial policy for this era. At least for shipbuilding, government policy appears to have hampered domestic and international competitiveness.

* * * *

Curieusement, le mouvement d'enthousiasme pour les études sur la politique industrielle du Canada a fait peu de place à l'industrie navale. Cet article identifie et explore les différentes phases de l'intervention du gouvernement dans la construction navale, entre 1945 et 1965. Avec la création de la Commission maritime canadienne, l'intervention prit plusieurs formes qui reflétaient des intérêts contradictoires et conflictuels. Tout au long de la période, l'étendue de l'action gouvernementale alla de l'aide à la reconversion jusqu'au support de chantiers marginaux dans l'objectif de sécurité nationale. Ce sont en effet les considérations liées à la défense qui eurent le dessus au cours de ces deux décennies. Cette étude examine les délibérations de la Commission maritime, des ministères de la Production de Défense, des Finances et de l'Industrie, pour relever les multiples intérêts en cause. Elle suggère qu'aucune évaluation de la politique industrielle de cette époque ne devrait sous-estimer l'importance de la politique de la défense. Dans le cas de la construction navale à tout le moins, l'action gouvernementale semble avoir empêché cette industrie de devenir compétitive à la fois sur le marché domestique et sur le marché international.

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The problems of ship construction for both civil and military use during the Second World War prompted many calls for the state to regulate shipbuilding and shipping in the postwar era. Preferring to follow free-market principles, Mackenzie King's government resisted these calls. The industry soon languished. In 1947, however, the developing cold war and the decline of the shipbuilding and shipping industries prompted a change in policy. The government established the Canadian Maritime Commission, which was charged with recommending appropriate measures of protection. Eventually, the commission administered direct subsidies, and assigned government contracts in order to preserve the shipbuilding industry. These intercessions by the visible hand of government ended abruptly in 1965. Allocation of government work and subsidies were suspended. Thus a distinct phase of government intervention ended and open competition returned.

Recent literature on state intervention in the private sector has often focused on the positive, ordering, and stabilising influence of government in their regulation of Canadian industry. Shipbuilding, which has not yet received detailed examination,¹ illustrates a less positive and more traditional element in government involvement: the extent to which government subsidies and policies diverted industry from a pattern of development set by the requirements of the marketplace. This paper explores the impact of explicit and implicit state industrial policy on the Canadian shipping and shipbuilding industries between 1945 and 1965. During this period, state intervention took many forms. Efforts at postwar reconversion to commercial demand fell prey to building the cold-war navy. As naval demand again waned, efforts to stimulate commercial demand through direct subsidies followed. A full examination of this national policy for shipbuilding must include consideration of the international and domestic economics of the industry and the influence of the cold war.

Given the scope of these themes, this essay can present only an outline history of the origins, course, and demise of this period of intervention. In outline, four findings emerge. First, efforts at developing a coordinated maritime policy, linking shipbuilding with shipping, proved a leitmotif repeatedly advanced, toyed with, and rejected by the state. Second, in place of a consistent reconversion policy, national defence contracting buoyed the industry in the short term, but hampered its development in the long term. Subsidies followed the decline in defence spending but these largely favoured the shipbuilding interests of the Great Lakes and St. Lawrence River. When subsidies were suspended in 1965, however, state intervention had failed to develop a long-term policy for maintaining the international competitiveness of Canadian shipbuilding.

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Planning the state's postwar relationship with the shipbuilding industry commenced in

1. On Canadian shipbuilding, see Nicholas Tracy, *Canadian Shipbuilding and Shipping Businesses: The State of the Scholarship* (Halifax, 1985) and Felicity Hannington, *A History of Shipping, Shipbuilding and Policy in Canada, Part 4* (Halifax, 1983). On Canadian industrial policy, see three volumes produced for the Royal Commission on the Economic Union and Development Prospects for Canada: Donald G. McFetridge, ed., *Canadian Industrial Policy in Action*, Vol. 4 (Toronto, 1985); idem., *Economics of Industrial Policy and Strategy*, Vol. 5 (Toronto, 1985), and André Blais, *Industrial Policy*, Vol. 44 (Toronto, 1985).

1943.² From the first, government assessments linked the fate of the shipbuilding industry to that of ocean shipping. A discussion of state support for shipbuilding must take this linkage into account. To those not familiar with the theory of maritime power, such linkage requires explanation. The tenets of maritime power, as codified by American Navy Captain Alfred Thayer Mahan,³ held that shipping and shipbuilding were important adjuncts to a nation's commercial and military security. Mahan based his mercantile and militarist philosophy on the historical experience of England. Whatever their historical accuracy, his works served as the theoretical justification for American naval supremacy. To that end, the American Maritime Commission, formed in the 1920s, administered construction and shipping subsidies and other protective policies. Canadian shipping and shipbuilding lobbies found solace in such a protectionist model. Wartime shipping shortages and the problems of naval and merchant ship production also convinced many within government that some protection should be afforded to these industries in the postwar era. A maritime policy for Canada, however, faced many ideological and practical objections.

As the war moved to a close, Canadian labour, shipping, and shipbuilding interests intensified their calls for Canada to pursue protective policies similar to those followed in the United States.⁴ Wartime development had swollen the ranks of these lobbies. At sea, Canada's merchant fleet had risen from virtual extinction to be the fourth largest in the world. Shipbuilding made similar gains. In 1939, only a few yards were capable of building major merchant or naval ships. Outdated and inefficient equipment and managerial capacity predominated. The war changed this situation dramatically. Employment in the industry rose from about 3,600 in 1939 to peak at over 75,000 in 1943.⁵ With war expenditures of some \$1.2 billion, production included 383 naval vessels and 395 merchant ships.⁶ The number of large shipyards increased from fourteen in 1939 to twenty-five in 1945.⁷

2. See Mackenzie King's request for detailed postwar planning in Canada. National Archives (NA), W. L. M. King Papers, MG 26, J4, Vol. 371, f. 3906, 27 December 1943.
3. A. T. Mahan, *The Influence of Sea Power Upon History, 1660-1783* (London, 1889); on the legacy of Mahan and a summation of his thought, see Barry M. Gough, "Maritime Strategy: The Legacies of Mahan and Corbett as Philosophers of Sea Power," *Royal United Services Institute Journal* (Winter 1988): 55-62 and, for an unadulterated picture of the mercantile and power-politics implications of Mahan, see William Reitzel, "Mahan on Use of the Sea," in *War, Strategy and Maritime Power*, ed. B. M. Simpson (New Brunswick, New Jersey, 1977): 95-107.
4. NA, MG 27 III, B20, Vol. 85, file "Merchant Marine III," submission of the president of the Canadian Seaman's Union, Pat Sullivan, to C. D. Howe, Minister of Reconstruction, 3 May 1944; NA, Canadian Transport Commission Records, RG 46, Box 1270, "Brief on Shipbuilding," report of the Canadian Shipbuilding and Ship Repair Association, 11 October 1944.
5. NA, Records of the Department of Munition and Supply, RG 28, R2-R8, Vol. 862, "Canada's Industrial War Effort," mss. produced by the Department of Finance, 1947, 97-99.
6. NA, Records of the Department of Defence Production, RG 49, Vol. 547, f. 200-13-337, vol. 1, Joint Intelligence Board (Canada), National Intelligence Survey, Shipbuilding, NIS-Sec. 64, August 1953 (hereafter JIB Intelligence report, 1953).
7. On the politics of the shipbuilding industry during the war, see Directorate of History, Department of National Defence (D/Hist), F. N. Smith, "History of the British Admiralty Mis-

Like the labour and industrial lobbies, many internal government appraisals recommended protecting these industries. In government assessments, however, military concerns formed the principal premise for protection. Shipping shortages and the problems and expense of mobilising shipbuilding for war convinced many within government that continued support for these industries was in the national interest.⁸ The Departments of Transport, Finance, Trade and Commerce, and the Navy all contributed separate studies generally endorsing some form of protection. The final report of the Interdepartmental Committee on Merchant Ship Policy, representing a consensus among these competing bureaucracies, proved most influential. Prepared for the Cabinet in April of 1944, this report reflected an ideal type somewhat removed from the Mahanist conception of maritime power. The product of interdepartmental bargaining, it recognised that the government would neither be willing to support these industries at their present size, nor employ extensive subsidies. Limited protection could be afforded, however, by 1) the state coordinating policies for shipping and shipbuilding to maintain both; 2) the sale on favourable terms of the merchant fleet to Canadian flag operators for operation on a commercial basis; and 3) the formation of a central coordinating agency similar to the American Maritime Commission.⁹ Cabinet accepted these proposals but was slow to put them into practice.¹⁰

Responsibility for reconstruction planning rested with C. D. Howe. As wartime Minister of Munitions and Supply and later of Reconstruction and Supply, Howe was hostile to labour and popular welfare schemes and this antipathy matched his hard-nosed business sense.¹¹ He took ideological and practical exception to the nationalist, mercantilist, and militarist cant implicit in these recommendations.

Without a means of defraying costs, direct government support appeared prohibitively expensive. In interallied negotiations on the continuation of controls on shipping, it became clear the status of any postwar merchant fleet would prove precarious. Despite wartime losses, the world's merchant fleet would total sixty-six million gross tons, some ten million more than was available on 1 September 1939. Allied estimates held that world demand could only support a fleet of thirty million gross tons. The United States sought to avoid a return to "cut throat competition,"¹² but both Britain and Canada wished to end wartime shipping controls as soon as possible after the cessation of hos-

sion in Canada," (ca. 1946) and E. R. Forbes, "Consolidating Disparity: The Maritimes and the Industrialization of Canada During the Second World War," *Acadiensis* 15:2 (Spring 1986): 3-27.

8. NA, Records of the Privy Council Office, RG 2, 7C, Vol. 16, minutes of Cabinet War Committee discussions, 5 October 1944.
9. NA, King Papers, MG 26, J4, Vol. 371, f. 3906, response to enquiry on reconstruction priorities, summary to King, 27 December 1943.
10. On the reluctance to form a coordinating body, see MG 27 III, B20, Vol. 85, f. 43(4), C. P. Edwards, Deputy Minister of Transport, to C. D. Howe, 15 January 1945; RG 28, Vol. 859, minutes of meetings, Reconstruction and Supply, 23 March 1945; RG 19, E-3(J), Vol. 3581, f. M-17, minutes, Cabinet Committee on Reconstruction and Supply, 23 January 1946.
11. Robert Bothwell, "War Into Peace: C. D. Howe As Minister of Reconstruction," *Canadian Committee for the History of the Second World War* (St. Jean, 1977), 3.
12. See NA, RG 46, Vol. 1269, UMEB-5, A. L. McCallum to J. A. MacKinnon, Minister of Trade and Commerce, 13 October 1945.

ilities. In concert with its objective of establishing a liberal economic order, the Cabinet voted to support an "international rationalization"¹³ of shipping. As the Allies were to be informed, with the end of shipping controls, touted for December of 1946, Canadian shipping operations were to be run "entirely upon a 'private enterprise' basis."¹⁴

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The reign of the free market proved short lived. The termination of wartime shipping controls did not occur as originally planned in December of 1946. Britain's burgeoning monetary crises forced the perpetuation of shipping controls. These, coupled with widespread criticism aroused by the sale of merchant ships to foreign operators, prompted Howe to undertake the formation of the Canadian Maritime Commission. Pending its establishment, foreign sales were halted.¹⁵

To draft the legislation, Howe chose a retired Royal Navy captain, Eric Brand. Formerly the wartime Director of Canadian Naval Intelligence and Merchant Shipping, Brand had drafted the Navy's recommendations for a postwar merchant marine and shipbuilding policy. His first draft closely followed the recommendations submitted by the Navy in 1944 to the Reconstruction Committee. Control of all marine matters — including shipping, shipbuilding, fishing, seamen, stevedores, shipowners, construction, and operational subsidies — was to rest with one government organisation. In his view, the climate of international trade would eventually require extensive subsidies for both Canadian shipping and shipbuilding to compete internationally. As for maintaining these industries for military reasons, the state's role was clear: uneconomic policies to gird the nation for war were responsibilities not to be neglected.¹⁶ Yet Brand held few illusions about what the Canadian state would support. He found the American model an imperfect guide, without "any sound economic argument." As well, Brand argued, "many ardent peace lovers" would bridle at a policy premised on maintaining auxiliary forces for "future wars."¹⁷ Even so, he maintained, a central controlling organisation would serve both sound commercial and military purposes. The most compelling role for any Maritime Commission, argued Brand, was to mediate the interests of labour and industry.¹⁸

Favouring few of these proposals, Howe eviscerated Brand's first draft, directing the expurgation of any inference within the bill that the commission's role was to give aid to the industry through subsidy or any other direct means of defraying costs. Many proposed powers were struck down. Other ministers shared Howe's objections. Within the Department of Transport, the Deputy Minister raised trenchant objection to the commission receiving authority for all marine matters at the expense of his department.

13. NA, Records of the Department of Munitions and Supply, RG 28B, Vol. 856, Cabinet Construction Directive, record of Cabinet decision, 28 September 1945.

14. NA, MG 30, E435, Vol. 3, report to the Provisional Maritime Consultative Council, 3 September 1946.

15. J. V. Clyne, *Jack of All Trades: Memories of a Busy Life* (Toronto, 1985), 127.

16. NA, RG 46, Vol. 1169, f. 100.00, "Explanatory Notes on Proposed Canadian Maritime Commission," 9 January 1947.

17. Ibid.

18. Ibid., Brand to J. R. Baldwin, Secretary to the Privy Council, 2 January 1947.

The ministers of Transport and Labour raised objections to the commission receiving authority over labour standards for merchant seamen. With the aid of Howe's parliamentary secretary, George McIlraith, Brand completed the final draft of a bill which little resembled his early recommendations.¹⁹

Approved on 23 June 1947, the Canadian Maritime Commission Act created an organisation devoid of executive powers. The commission was simply an advisory body reporting to the Minister of Transport. It was not to be a regulatory agency with executive authority. Established under the minister but separate from the department, the commission was responsible for monitoring the state of the shipping and shipbuilding industries and recommending forms of assistance. It received no authority over the welfare, training, or conditions of maritime labour. Terming this the "crux of the whole matter" of preserving the shipping industry, Brand protested that the commission received "all responsibility without any authority."²⁰ His prescience proved unwelcome. Minister of Transport Lionel Chevrier intervened to ensure Brand was not appointed to the commission.²¹

Howe appointed three commissioners. The first of two ordinary commissioners was Henry J. Rahlves, a former executive with Imperial Oil and President of Park Steamships Co., the Crown company that controlled government-owned merchant vessels. The second was Louis Chesnaye Audette, a lawyer and former naval reserve commander who was then serving as a first secretary at External Affairs. Howe's choice of chairman most closely reflected his views on financial matters. John V. Clyne, a Vancouver-based maritime lawyer fond of quoting Adam Smith, received free rein to shape the commission. Authorised a staff of some two hundred, Clyne argued he could save the government money and make do with a staff of only twenty. He slashed positions accordingly. With that tremulous foothold in the bureaucracy, the commission set about assessing the problems of Canadian shipping and shipbuilding. Its first task became recommending whether protection of the shipbuilding and shipping industries was warranted.²² To this end, the commission established advisory committees on Labour and Shipbuilding. The first quickly fell subject to the union struggles then troubling Canadian shipping and collapsed within weeks of being formed.²³ The second, on ship-

19. See the correspondence in *ibid.*

20. *Ibid.*, memo of a meeting between Eric Brand and C. D. Howe, 4 November 1946; Howe to Brand, 11 November 1946; Brand to J. R. Baldwin, 2 January 1947; Brand to McIlraith, 19 March 1947; and Brand to Howe, 17 January 1947.

21. D/Hist, Eric Brand Papers, "Recollections."

22. Clyne, *Jack of All Trades*, 127-39.

23. Efforts by the commission to form an advisory committee on labour stalled when the Minister of Labour insisted it only deal with labour federations, rather than the unions most directly involved with shipping and shipbuilding. The federations had just agreed to participate in the committee when merchant seamen troubles erupted again. In May of 1948, Howe made remarks deemed critical of the CSU, thereby causing the labour committee to collapse. Efforts to resurrect it were few and never successful. See NA, RG 46, Vol. 1171, file 103.9, Clyne to A. McNamera, Department of Labour, 20 November 1947; McNamera to L. Audette, commissioner, Canadian Maritime Commission, 20 November 1947, and the balance of the correspondence on the labour committee.

building, was both more enduring and influential. The antibureaucratic measures adopted by Clyne rendered the commission largely dependent for technical information on this advisory panel and its successors.

In practice, the advisory panel became synonymous with the Technical Section of the Canadian Shipbuilding and Ship Repairing Association. Lacking sufficient staff to conduct in-depth and impartial research, the commission relied on the association for information and statistics. Formed in 1944, the latter represented the nation's twelve major and most established shipyards, accounting for some 80 to 90 per cent of total capacity. The association submitted its first major recommendations to the commission in April of 1948. Its concerns reveal the postwar plight of the industry. Fully one third of the capacity was sitting idle. Foreign orders were beginning to disappear. In 1947, foreign orders accounted for some 78 per cent of total tonnage completed, but shortages of Canadian steel, increasing currency problems, and the revival of European shipyards hampered securing more foreign contracts. Shipbuilding was essentially an exporting business. The report noted that demand consisted of either building "new ships for Canadian owners who are engaged in overseas trade, or it builds and exports ships to foreign buyers."²⁴

The association outlined an entrepreneurial strategy with tenets that would remain unchanged throughout the period between 1948 and 1965. First, they called for a "national shipping policy" favouring the construction and registration of ships in Canada. The government was to stimulate ship construction by encouraging Canadian shipowning. Commercial demand could be encouraged by defraying capital costs through accelerated depreciation. The target for such incentives was the ageing Great Lakes merchant fleet. Additionally, the association recommended the government produce a planned naval construction programme to compensate for slumping commercial sales. In a move that would prove critical to the development of the industry, government building was to be based on allocation of work instead of competitive tenders, supposedly to ensure fairness.

The commission undertook to examine all of these proposals in detail. Clyne warned the association, however, that the government could never replace "the drive of private enterprise" and would oppose subsidies.²⁵ As it stood, the order books of the shipbuilding industry remained relatively full early in 1948. When it later became clear that orders were declining, many of the proposed means of protection recommended to the Minister of Transport by Clyne were remarkably similar to those requested by the Shipbuilding Association. Shipping interests similarly expressed their concerns to and through the commission.

Throughout the early period of the commission, recommendations to aid the shipbuilding industry were closely tied to efforts to preserve the ocean merchant marine.

24. Canadian Shipbuilding and Ship Repairing Association (Ottawa) (hereafter CSSRA), Records, "Submission of the Advisory Committee of Canadian Shipbuilders to the Canadian Maritime Commission," 16 April 1948.

25. *Ibid.*, notes on presentation by J. V. Clyne to the Technical Section of the CSSRA, 16 July 1948.

The war-built merchant fleet quickly moved towards a crisis with the imposition of less formal controls that followed the end of the war. The war-built ten thousand gross ton merchant ships were already noncompetitive, their speed and general arrangement making them unsuitable for the most profitable trades. Eventually the majority of these vessels would be forced to transfer to United Kingdom or other registry. For the purposes of this paper, it is unnecessary to explore fully the problems of shipping. It is sufficient to note that, up to 1953, many measures adopted to help preserve the shipping industry directly or indirectly protected Canadian shipbuilding. Indeed, the first major initiatives to protect shipbuilding were intended to aid the shipping industry.

The "Tonnage Replacement Plan" introduced in 1948 sought to modernise the Canadian merchant fleet. To encourage a Canadian merchant fleet, the war-built vessels were sold to Canadian companies under extremely favourable terms. The purchasers, however, initially had to accept a "flag covenant" which prevented them from selling these vessels out of Canadian registry. Under this new plan, shipowners were permitted to sell their war-built ships out of Canadian registry, in return for undertaking to place in escrow a sum equal to either the actual sale price of the vessel or an amount equal to the original purchase price from the government, whichever was the lesser. These escrow moneys were subsequently to be used for building or purchasing new or more modern ocean merchant vessels. In February of 1948, Cabinet approved the replacement plan and moneys became available immediately.²⁶ It was thought that this measure would encourage construction in Canadian shipyards. Some thirty-nine vessels were sold under this plan through 1949, but building for the unprofitable ocean trades did not follow.

Even so, the plan, which was originally advanced to aid ocean shipping, quickly became the peg on which further protection for shipbuilding was hung. By the close of 1948, the currency and balance-of-payments problems long troubling the shipping industry had begun to jeopardise shipbuilding as well. Average monthly employment had been falling steadily from early in 1948. In 1946, it stood at 14,899; by 1949, it was 9,530. In tonnage produced, the Canadian share of world production declined from fourth place to twelfth.²⁷ This relative decline reflected a collapse in export orders. Between 1947 and 1949, the bulk of commercial construction was for export. In 1949, eighteen of twenty-six vessels completed were for export, six for the domestic commercial market, and the remainder for federal or provincial governments.²⁸ With the completion of these vessels, the export order books would be virtually empty. To increase domestic commercial demand, the commission won approval for an enhancement of the replacement plan.

While ruling out direct subsidies, the commission secured several means of protecting the industry. In November of 1948, the Cabinet accepted an accelerated depre-

26. Drafting the detailed proposal met considerable delay, and it only gained formal approval in January of 1949; P. C. 178.

27. See annual reports of the Canadian Maritime Commission, 1948-51; JIB Intelligence report, 1953; Audette Papers (privately held), memo to Cabinet, "Assistance to Shipping and Shipbuilding," 12 February 1949.

28. *Annual Report of the Canadian Maritime Commission* (Ottawa, 1950), 11.

ciation plan. To enhance the Ship Replacement Plan by encouraging the employment of the escrow funds for construction in Canada, the government introduced preferential depreciation rates and freedom from recapture of profits by taxation. Under normal conditions a Canadian ship could only claim depreciation of from 3 to 6 per cent, depending on the owner's profit. Even in profitless years, depreciation had to be taken. In such conditions, the owner forfeited the opportunity to amortise his investment fully, a situation which resulted in some financial disability when seeking modern replacement vessels. The accelerated depreciation programme was formalised under the Canadian Vessel Construction Assistance (CVCA) Act of 1949. This increased depreciation to 33.33 per cent per annum. These terms provided the flexibility for writing off capital investment as fast as earnings permitted. When introduced, it was anticipated that this plan would mainly affect construction for coastal and inland trades because they remained profitable.²⁹

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International trade problems and rising international tensions, however, interceded before these measures had much effect. Changing geostrategic concerns began to affect the shipbuilding industry. International tensions drew Cabinet's attention to issues of military preparedness and rearmament.³⁰

From its inception, the Maritime Commission possessed a quasimilitary purpose. As the cold war deepened, this purpose moved to the fore. Cabinet requested that the commission study the necessity of preserving a nucleus of skill among the nation's four shipbuilding regions, the Atlantic and Pacific coasts, the St. Lawrence River, and the Great Lakes.³¹ In November of 1948, Cabinet granted the commission "responsibility for supervising" the placing of all government shipbuilding orders. Under this supervisory authority, its ambit was greatly enhanced. Its tentative advisory role, previously entrenched in statute, gave way to executive functions. These included the power to allocate repair and conversion contracts and to proceed without calling tenders at their own discretion. When introduced, the policy of allocation was considered a relatively insignificant form of protection. It came, however, to play a central role in the forthcoming naval rearmament programme.³² At the request of C. D. Howe, members of the commission were asked to assess the nation's strategic shipbuilding requirements and to assist the purchasing arm of the government, the Canadian Commercial Corporation, to assess the technical details of naval building contracts. The commission therefore

29. Lionel Chevrier in *Hansard*, 5 December 1949, 2704, 2705, and 2717.

30. This discussion of the general progress of cold-war rearmament has been greatly informed by Lawrence R. Aronson, "From Cold War to Limited War: Canadian-American Industrial Mobilization for Defence, 1939-1954," *Revue internationale d'histoire militaire* 51 (1982): 208-46.

31. Audette Papers, A. D. P. Heeney to Chevrier, 12 November 1948; NA, RG 46, Vol. 1192, f. 2401 pt. 1, Clyne to Chevrier, 5 October 1948 and Howe to Clyne, 12 October 1948.

32. For a summary of other means of protection afforded the industry, see NA, Records of the Department of Finance, RG 19, Vol. 4650, f. 3910-02, Cab. Doc. 1186-69, 10 December 1969; the discussion between the chairman of the Maritime Commission, J. V. Clyne, and Howe can be followed in NA, RG 46, Vol. 1192, f. 2401.0 pt. 1.

turned its attention to planning the phasing and disposition of contracts for the naval building programme.³³ Primary responsibility for this duty fell to one member of the commission, Angus McGugan.³⁴ Having come to Canada from Scotland during the war to help manage the shipbuilding programme, McGugan became the general manager of the newly formed Shipbuilder's Association late in 1944. There, his technical expertise as an engineer and production manager led to his appointment to the advisory panel for the commission. When Henry Rahlves became mentally incapacitated in mid-1948, McGugan moved from the association to the commission. Subsequently, when the naval rearmament programme began, McGugan operated as the chairman of the ad hoc naval production committee, remaining there until 1953 when the newly created Department of Defence Production assumed the chair. McGugan proved instrumental in shaping the state's relationship with the industry.

In preparing the strategic estimate of shipbuilding requirements, McGugan simply asked the association for information on production capacity, technical competence, and employment levels. Although McGugan maintained this close relationship with the association until his untimely death in 1956, he was not purely an agent of the industry. His impartiality was reflected in the estimate of the absolute minimum size to which the shipbuilding industry could be allowed to decline. Recognising that it would not soon regain its export market and with an eye to reasonable economy, McGugan argued that the state should seek to maintain a strategic nucleus of only seven thousand shipyard workers.³⁵ This was a figure based on information provided by the association, which was then approaching its postwar employment low of 9,500 men.³⁶

In March of 1949, Cabinet accepted McGugan's strategic nucleus and approved the 1948-49 five-year, sixty-two million dollar programme of government shipbuilding developed by the commission and the Navy. The first postwar building programme included contracts for one icebreaker, HMCS Labrador, and three antisubmarine warfare (ASW) frigates, later designated the St. Laurent Class.³⁷ Fabrication of these vessels, however, was delayed until 1950 because of planning difficulties. In the interim, the

33. NA, RG 46, Vol. 1192, f. 2401-0 pt. 1., Minister of Transport to Clyne, 5 October 1948 and Howe to Clyne, 12 October 1948.

34. CSSRA, report to the Industrial Defence Board, 20 October 1948; NA, RG 46, Vol. 1192, f. 2401-0 pt. 1, Howe to Clyne, 12 October 1948 and Vol. 1255, f. 2402-2-8-B, Clyne to M. W. MacKenzie, Deputy Minister of Trade and Commerce, 16 December 1948.

35. The drafts of McGugan's strategic estimate are available in NA, RG 46, Vol. 1255, f. 2401-1.

36. *Ibid.*, f. 2401-2 pt. 1, Clyne to Chevrier, 5 October 1948.

37. The naval building programme is still in need of a competent history. For the best of the extant literature and as an indication of the limited sources and perspectives on these policies, see S. M. Davis, "Naval Procurement, 1950 to 1965," in *Canada's Defence Industrial Base*, ed. David G. Haglund (Toronto, 1988): 97-117; Dan W. Middlemiss, "Economic Considerations in the Development of the Canadian Navy Since 1945," in *The RCN in Transition*, ed. W. A. B. Douglas (Vancouver, 1988): 254-79; J. H. W. Knox, "An Engineer's Outline of RCN History: Part II," in *The RCN in Retrospect 1910-1968*, ed. James Boutelier (Vancouver, 1982): 317-33; and R. B. Byers, "Canadian Defence and Defence Procurement: Implications for Economic Policy," in *Selected Problems in Formulating Foreign Economic Policy*, eds. Denis Stairs and Gilbert R. Winham (Toronto, 1985): 131-95.

commission explored further options for preserving strategic capacity and aiding commercial demand.

Comprehensive schemes, directed at enhancing the viability of both the shipping and shipbuilding industries through improving domestic demand, had already met rejection by Cabinet. In February of 1949, Clyne argued that a comprehensive programme of protection was essential. As he informed the minister, "I can see no other way of keeping these industries afloat."³⁸ Arguing that there was sound commercial sense in keeping some merchant marine under the Canadian flag and that militarily it could prove essential, Clyne proposed an elaborate scheme to reduce the operating costs of the merchant fleet and to stimulate shipbuilding. For both industries, cheaper foreign competition reduced their international competitiveness. Moreover, under the Commonwealth Merchant Shipping Agreement (1931) and the Canada Shipping Act (1935), Canadian operations were open to direct competition from the United Kingdom. Its vessels could be imported to Canada tariff free and could compete successfully in Canadian waters. Clyne proposed a plan to help equalise costs between Canadian and British shipbuilding by providing low-cost loans. Clyne's plan was to build twenty-five modern merchant ships over a seven-year period. This effort would involve some twenty-five million dollars in direct costs to the government and another forty-five to fifty million dollars in low-interest loans. The state would retain title until the loans were repaid. With Canada facing its own currency problems, however, Cabinet deferred the proposal from their agenda on 1 March 1949 for a year.³⁹

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By early in 1950, the collapse of the export market made it clear the planned naval construction programme would keep only some 67 per cent of the seven thousand shipyard workers employed.⁴⁰ To increase demand, Cabinet explored both expansion of the naval programme and restriction of the coastal trade to Canadian-built ships. On the latter, Chevrier introduced restrictions on the importation of American-built vessels over five years of age, which were being introduced into the Great Lakes in increasing numbers.⁴¹ Further restrictions, particularly against the importation of British-built vessels, were under examination by a subcommittee of Cabinet when, in June of 1950, North Korea invaded the south. Thus followed the rapid expansion of the Canadian naval building programme. A long-term policy of protection for the shipbuilding industry became moot.⁴²

38. Audette Papers, Clyne to Chevrier, 11 February 1949.

39. Ibid., Cab. Doc. 901/1949, "Assistance to Shipping and Shipbuilding," and A. D. P. Heeney to Chevrier, 1 March 1949.

40. NA, RG 46, Vol. 1188, f. 2402-2-9 pt. 1, A. McGugan to W. D. Low, Canadian Commercial Corporation, 12 July 1950; NA, Records of the Department of National Defence, RG 24, 83-84/167, Vol. 3788, f. 8200-1, N. A. Robertson to Admiral H. L. Houghton, 14 July 1950 and Houghton to Robertson, 21 July 1950.

41. Canada. Parliament, House of Commons, Minutes of Proceedings and Evidence on Bill No. 303, evidence of Lionel Chevrier, 20 June 1950.

42. On the genesis of these policies, see RG 24, 83-84/167, Vol. 3788, f. 8200-6, Claxton to Cabinet, 14 March 1949 and Deputy Minister of National Defence C. M. Drury to H. T. W. Grant, Chief of the Naval Service, 6 April 1949; *ibid.*, Vol. 3788, f. 8200-1, minutes of the

The invasion prompted the Canadian Minister of Defence, Brooke Claxton, to announce a five-year, five billion dollar "Accelerated Defence Program." Within a year, plans to widen the potential mobilisation base and develop redundant sources of supply followed. The original frigate programme of three ASW ships was expanded to fourteen vessels. Further, fourteen minesweepers were planned for the Navy along with many small harbour craft. Beside this new construction, the department sponsored the refitting and recommissioning of thirty-four minesweepers and war-built frigates saved from the wrecker's yard. Direct capital assistance to component manufacturers doubled.⁴³ By 1951, the shipbuilding and repair programme was accounting for over seventy-five million dollars in annual expenditures. The transitory stimulus of the Korean crisis would inflate the Navy's fleet to levels unprecedented in peacetime. From fifty-two ships in 1950, naval acquisition and production resulted in a fleet of 129 ships by 1958.

The potential problems of wartime supply caused the Navy's concerns for redundancy and self-sufficiency of supply to supplant concerns for economies of scale. This required Canadian, or at least North American, production of major components. Though Howe supervised the rearmament programme, the Navy actually determined its specifics.⁴⁴ In this, McGugan proved the key interlocutor, serving as the technical advisor to the Canadian Commercial Corporation and chairman of the production committee.

The naval building programme entailed developing and maintaining a regionally dispersed manufacturing capacity for both new construction and parts. Thus the contracts for the first three frigates were distributed across the country. The Maritime Commission kept track of government and private building so that shipyards belonging to the Shipbuilder's Association who lacked commercial orders would remain in operation. Both the commission and later the Department of Defence Production allocated both personnel and production by a preset ratio, 25 per cent to the Maritimes, 40 per cent to Quebec, 6 per cent to Ontario, and 29 per cent to British Columbia.⁴⁵ As the cold war unfolded, however, this arrangement entailed the dispersal of far more work than was originally estimated.

With the expansion of the war effort, the contractual principles adopted for the initial programme were simply extended without examining their ultimate costs or consequences. The allocation of work and the signing of cost-plus contracts for both the ASW frigates and other new vessels were two notable contractual arrangements that

Sub-Committee on the Limitation of the Canadian Coastal Trade, 13 June 1950 and N. A. Robertson to H. L. Houghton, 14 July 1950 and the latter's reply, 21 July 1950.

43. NA, MG 32, B5, Vol. 94, memo of CNS H. T. W. Grant to the Minister of Defence entitled "Accelerated Defence Programme, Tooling Up Industry For Shipbuilding," NSS 1650-26, 31 July 1950.
44. See D/Hist, RCN Mobilization Logistics Book and the Defence Supply Panel's approval of naval requirements in minutes of the 478th meeting of the chiefs of staff, 27 December 1950; RG 24, 83-84/167, Vol. 3788, f. 8200-1, Claxton to Howe, 4 April 1951.
45. NA, RG 49, Vol. 454, f. 200-2-7-1, Howe to Canadian Manufacturers Association, 5 June 1951; RG 19, Vol. 4422, f. 9175-04-5, Vol. 1, "Government of Canada Procurement and the Canadian Shipbuilding Industry," 18 December 1964.

contributed substantially to the naval programme running well over budget. These principles received only cursory review by Treasury Board before the expansion of the programme. Only after June of 1950 did the Cost Inspection and Audit Division of the Finance department raise objections. It pointed out that the contractual terms of the naval programme entailed the government absorbing unusually high overheads, a situation which amounted to government subsidisation. Despite these objections, none of the principal government agencies involved in ordering the vessels recommended any change. McGugan defended the policies. These high costs, argued McGugan, resulted not from the contractual terms but from the overhead in civilian yards increasing drastically because of an earlier decline in commercial orders caused by exchange problems. Moreover, one object of the naval programme was to maintain Canadian productive capacity.⁴⁶ The financial consequences of these decisions would not be clear until after 1955, when the first of the ASW frigates entered service, three years late and 100 per cent over budget. The cost of the original vessels in the naval building programme weighed heavily in the denouement of the strategic industrial policy coordinated by the Maritime Commission.⁴⁷

As a development strategy, defence production proved problematic. The naval programme forestalled development of a comprehensive government policy towards the industry. Naval work did resuscitate the industry. Naval building dominated demand through 1956. The surge in government contracts proved a particular boon to the members of the Shipbuilding Association. By 1953, some 80 per cent of shipyard work was under government auspices.⁴⁸ These contracts raised shipyard employment to some fifteen thousand. Yet government work restricted gains in comparative advantage between firms by virtually filling the order books of the major yards. Defence requirements received priority; commercial contracts were declined because shipyards could not obtain priority ratings for steel or other subcontracted items.⁴⁹ Even the commercial possibilities of assembling advanced warships for countries outside NATO were blocked by the government because of the advanced weapons technology involved.⁵⁰ Indeed, no ship was completed for foreign order in Canada between November of 1953 and March of 1957. Even with the heightened demand for shipping resulting from the 1956

46. See NA, RG 24, 83-84/167, Vol. 3788, f. 8200-6, vol. 1, Minister of Defence to Governor in Council, 14 March 1949; RG 46, Vol. 1188, f. 2402-9 pt. 1, minutes of Naval Shipbuilding Panel, Canadian Manufacturers Association, 6 July 1950 and *ibid.*, f. 2402-2-9 pt. 1, McGugan to W. D. Low, Canadian Commercial Corporation, 12 July 1950.

47. On the development of naval shipbuilding contract formulae, see my "The State as Innovator: Canadian Warship Construction and the Shipyard Lobby, 1949-1966 — A Preliminary Investigation," paper presented to the Canadian Business History Association Conference, Toronto, March 1991.

48. CSSRA, minutes, 13 June 1953.

49. NA, RG 49, Vol. 48, f. 122-4-3, vol. 1, K. S. Harris, Steel Controller, to D. Scaule, Halifax Shipyards, 17 August 1951 and F. Pain to Les Chantiers maritimes de Charlevoix Ltée., 22 February 1951.

50. NA, RG 24, 83-84/167, Vol. 3789, f. 8200-16, Admiral H. T. W. Grant to Minister, NSC 8200-16 (TS), 21 December 1950; D/Hist, monthly report of HMCS Niagara for February 1951, NS 8000; NA, RG 24, 83-84/167, Vol. 3789, f. 8200-16, J. C. Pratt, Director of Naval Intelligence, RCN to U. S. Naval Attaché, Ottawa, 16 January 1951.

Suez Crisis, steel shortages prevented Canadian yards from capitalising on this increased commercial demand.⁵¹ Without access to company records, however, a definitive measure of the degree to which defence production disrupted commercial production throughout the industry cannot be offered. Nor can the consequences of operating with the high overheads attendant on defence production be measured with certainty. The problems caused by an artificially maintained labour overhead associated with defence production are, however, well recognised. As Melman has demonstrated, plant modernisation was often avoided because any projected increase in productivity would be offset by machinery costs. Hence less efficient, labour-intensive processes continued.⁵² There is some indication that this theoretical problem was realised, for some Canadian shipyards clearly began to reinvest in machinery and plant only when it became clear that government policy was changing.⁵³ While defence production sustained the industry through most of the 1950s, it restricted normal commercial trade, and allocation and other contractual forms prevented individual firms from capitalising on their comparative advantages.⁵⁴ These deleterious effects of government procurement policy were not, however, the primary reason those policies were reformed.

v

From 1956 to 1964, the foundations of government policy towards the shipbuilding industry faced challenge and reconsideration. The short-term revival stimulated by defence spending held little promise as a substitute for long-term policy. Indeed, government planning for the curtailment of the Accelerated Defence Programme commenced in 1952, when the emphasis began changing from the "blue phase" production effort to the "green phase" of maintaining production capacity.⁵⁵ Delays in the naval construction programme put it out of phase with general developments in defence policy. The major fleet units authorised under the 1949-50 building programme had been expected to enter service in 1952, but only arrived in 1955-56. These delays placed further construction programmes in some jeopardy while at the same time helping to stabilise employment levels in the industry.

Planning for conditions of reduced government demand commenced in November of 1952 with Cabinet considering a call from the Canadian Maritime Commission for a

51. Canada Steamship Lines, *Newsletter*, 15 March 1957.

52. See Seymour Melman, *The Permanent War Economy* (New York, 1974), 87-92.

53. British Columbia. Provincial Archives, Add. Mss. 1230, J. S. Marshall & Co. Ltd., "Burrard Dry Dock Company," 1971, 5: 475-96 and 6: 497-98; Add. Mss. 1241, J. S. Marshall & Co., "Yarrows Limited," 1971, 4: 351-92.

54. Measuring competitiveness is complicated by considerations of domestic advantages versus international competitiveness. Even the most advanced Canadian yards faced a disadvantage in international markets because of the high costs associated with North American production. See NA, RG 19, Vol. 4950, file "Industry Shipbuilding Committee," vol. 1 and Vol. 4422 and f. 3910-02 pts. 1 and 2.

55. For a discussion of this phasing and the problems of shipbuilding plant, see the long memo entitled "Notes on Sustaining Defence Industry During the 'Green Phase'," and P. Solly-Flood of the Working Group on Maintenance of Facilities to G. M. Grant, Coordinator of Production, Department of Defence Production, 14 January 1954.

long-term policy of operational and constructional subsidies. With an eye to encouraging the replacement of obsolete tonnage, the commission recommended the closure of the coastal trade and a long-term policy of operational and constructional subsidies. Cabinet referred the proposals to a special joint committee for consideration.

Examination of these issues continued through 1953, and marked the last serious effort to preserve a Canadian flag ocean merchant marine. The young Simon Reisman at the Department of Finance raised the essential objection to the recommendations of the Maritime Commission. As he informed the Deputy Minister of Finance, there was no essential linkage between shipping and shipbuilding. The effort to restrict registry and to link ship operating with shipbuilding could only keep the industries inefficient and uneconomical. Added Reisman, the shipbuilding industry presently employed nearly fifteen thousand men, a figure well above that deemed essential by Cabinet. Therefore, shipbuilding required no help.⁵⁶ Later consideration by the Interdepartmental Committee on External Trade Policy confirmed these arguments. Consequently, Cabinet received the recommendation that the problems of shipping and shipbuilding be addressed separately because the shipyards were operating "at nearly three times the capacity" accepted as a strategic necessity.⁵⁷ There would be no effort to revitalise an ocean merchant fleet.

The fate of the shipbuilding industry was less certain. Faced with diminishing defence requirements, the commission explored several measures for increasing commercial demand. The first was recommended jointly by the Dominion Marine Association, which represented the Great Lakes ship operators, and the Shipbuilder's Association. Recognising the government's long-held opposition to direct subsidies, the shipbuilders sought to stimulate domestic demand by having the coasting trade restricted to Canadian-built and -registered ships.⁵⁸ Previous proposals to this effect had met stiff resistance in Cabinet but, following the commencement of the St. Lawrence Seaway, Cabinet proved more amenable. In the face of this concerted lobbying, the Spence Royal Commission on Canada's Coasting Trade was struck to examine the consequences of the St. Lawrence Seaway. Formed in March of 1955, the Spence commission examined recommendations for protecting the coastal trade in light of present shipping requirements, carriage patterns, and export requirements.

The seaway threatened to remove the protection afforded by geography. Open competition from United Kingdom vessels was what the Great Lakes shipping and shipyard owners feared most. Yet the majority of the 173 submissions and 200 witnesses to the commission favoured competition. The final report of the Spence commission, released in December of 1957, sided with the majority argument. It argued that the effects

56. NA, RG 19, Vol. 4432, f. 9460-00, Reisman to Clark, 9 December 1953.

57. Ibid., ICETP Doc. 145, 20 May 1953.

58. The president of the CSSRA identified restriction of the coastal trade as the association's major long-term objective for stimulating commercial production in Canada; see CSSRA, minutes, 18 May 1950, 11 May 1951, 28 June 1952, and 13 June and 27 October 1953 and the decision to launch a concerted campaign to sway politicians and the general public to close the coastal trade and recommend a royal commission study of the question, 9 March 1954.

of the seaway on shipbuilding and Canadian shipping remained hypothetical, but that the closing of the coastal trades to foreign vessels would definitely result in higher freight costs. Those costs would jeopardise the market share of many staples exporters. Consequently, the commission recommended against closing the coastal trade.⁵⁹

As this body deliberated, development of a comprehensive policy toward the shipbuilding industry remained in abeyance.⁶⁰ With its completion, responsibility for framing a comprehensive policy fell to the newly elected Diefenbaker government. George Hees, the first Minister of Transport, argued against any scheme of comprehensive protection. As he informed Diefenbaker, the maintenance of a shipbuilding industry in Canada was important but there were too many "high cost yards . . . with little business." He would seek a policy that helped the efficient yards "if this can be done without at the same time maintaining the more uneconomic yards."⁶¹ Hees proposed doing nothing until the effects of the seaway on Great Lakes shipping became known. In the interim, while the volume of government work would remain unchanged, the shipyards would be allowed to find "their own level . . ."⁶² In keeping with this approach, the Department of Transport resumed direct responsibility for ordering vessels it required, now by placing orders through competitive tender rather than allocation. These policies continued through 1960 when government estimates ran at some seventy million dollars for refitting, repair, and new government shipbuilding for 1960-61.⁶³ By then, the effects of the seaway were becoming clear.

Canadian participation in the coasting and lakes trade declined from 85 per cent of carriage in 1954 to 78 per cent in 1960. British and other Commonwealth carriers increased their share accordingly.⁶⁴ Leon Balcer, who had replaced Hees as Minister of Transport by the time these effects became apparent, turned to the chairman of the Maritime Commission, Alexander Watson, for advice. Watson attempted to frame a policy that would give aid to the most competitive shipyards without encouraging any increase in work among the marginal ones. Initial recommendations involved a policy of construction and operational differentials through tax deductions.⁶⁵ Such deductions encountered stiff opposition from the Department of Finance. By November 1960, Finance had succeeded in blocking any more consideration of tax deductions because these could result in "windfall subsidies to profitable companies."⁶⁶ Instead, discussion turned to direct subsidies. Balcer had gained Cabinet support for a more comprehensive response but had yet to gain support from the Treasury Board or the Finance department.

59. *Report of the Royal Commission on the Coasting Trade* (Ottawa, 1957).

60. Audette Papers, George Marler, Minister of Transport, to Cabinet, "Shipping Policy," 16 July 1956; NA, RG 19, Vol. 4433, f. 9460-1 pt. 1, record of Cabinet decision, 23 July 1956.

61. NA, RG 19, Vol. 4950, f. 3910-02, vol. 1, Hees to Diefenbaker, 30 October 1957.

62. *Ibid.*, Vol. 4422, f. 9175-02, vol. 1, G. V. Sainsbury to S. S. Reisman, 14 April 1959.

63. See summary of measures of support in *ibid.*, E. A. Oestreicher to L. Fry of Treasury Board, 22 June 1962.

64. *Woods-Gordon Report*, App. 2, 13.

65. Alexander Watson originated this proposal; see CSSRA, minutes, 6-7 January 1960.

66. See NA, RG 19, Vol. 4422, f. 9175-02, vol. 1, Cab. Doc. 341-60, 26 October 1960; Reisman to Claude Isbister, 30 November 1960 and Isbister to Minister of Finance, 7 December 1960.

Though neither measure had yet been approved by Cabinet, Balcer attempted to break this deadlock in May of 1961 by announcing the government's intention to introduce a comprehensive subsidy scheme and to amend both the Commonwealth Merchant Shipping Agreement and the Canadian Shipping Act, thereby limiting the access of foreign-registered vessels to the Great Lakes.⁶⁷

Both of these proposals were considered by senior officials of the Departments of Finance and Transport. The interdepartmental committee struck to settle the details of the subsidy recommended that, with the introduction of the comprehensive subsidy scheme, the special depreciation provisions of the Canadian Vessel Construction Assistance Act should be dropped and the Ship Replacement Plan be revised to prevent vertically integrated shipping and shipbuilding interests from receiving multiple benefits. These proposals came at the insistence of the Department of Finance.

The department showed particular interest in excising what were termed "Angel Plan" operations.⁶⁸ Changes to the depreciation provisions of the Canadian Vessel Construction Assistance Act in 1957 resulted in certain large companies, such as Canadian Steamship Lines, employing a form of hire-purchase agreements between shipbuilders and ship operators which effectively allowed both to obtain the full write-off benefits of the act. Finance viewed this as an unintended double benefit, unavailable to other industries. The Maritime Commission was able to convince some companies not to follow what Finance considered an abusive practice, but the Minister of Finance insisted that the provisions be struck down.

The committee was still addressing such details and the mechanisms of administration when, on 7 July 1961, Balcer rose in the House of Commons to outline the proposed subsidy, which would amount to 40 per cent of the "selling price" of the vessel. The CVCA would not be amended but, added Balcer, he would prevent the claiming of double benefits.⁶⁹ As Finance had insisted, the subsidy would apply only to "shipyard costs." Balcer's action prejudiced continuing discussion of the details. Protests by Finance did not prevail. Citing the Prime Minister's desire to have the legislation brought forward in a timely manner, Balcer, aided by the chairman of the Maritime Commission, drafted the final provisions of the Ship Construction Assistance Regulations that would formalise the subsidy. Faced with stiff resistance from the Department of Finance, Balcer's draft was slightly amended. The definition of shipowner was expanded by removing a citizenship requirement, and the Minister of Transport surrendered his discretionary power to allow double benefits afforded by using the provisions of both the CVCA and the subsidy.⁷⁰ Balcer had argued for this flexibility in order to allow the encouragement of a deep-sea shipping fleet, but neither Finance nor Cabinet accepted his arguments regarding the strategic necessity of an ocean merchant

67. NA, RG 19, Vol. 4422, f. 9175-02, vol. 1; Cabinet approved these actions on 11 May 1961 and Balcer announced them to the House the next day; see *ibid.*, record of Cabinet decision, 11 May 1961 and summary of Balcer announcement, 12 May 1961.

68. *Ibid.*, Vol. 4950, f. 3910-02, vol. 1, Isbister to J. R. Baldwin, 25 May 1961.

69. See summary of Balcer's remarks in *ibid.*, Vol. 4422, f. 9175-02, vol. 1, Isbister to A. W. F. Plumptre, 10 July 1961.

70. *Ibid.* and Baldwin to G. G. E. Steele, 21 August 1961.

fleet. Finance argued that war was highly unlikely and, in any event, the conditions of modern war rendered long-term emergency shipping operations virtually impossible. To complete the circle in logic, it was noted that access to the NATO shipping pool was not dependent on contributing ships.⁷¹

Cabinet's adoption of the narrower subsidy plan in September appears to have been based more on domestic political interests than military concern.⁷² The consequences of the seaway brought many lobbies to call for protection. The Canadian Manufacturers Association added its weight to the traditional lobbies of shipbuilders, owners, and operators. What political influence was brought to bear by the president of the CMA, T. R. McLagan, then the director of Canadian Steamship Lines, the largest lake vessel operator, can only be surmised from the urgency Balcer said the Prime Minister attached to the matter.⁷³ Whatever the weight of patronage and politics, Cabinet continued to attach great importance to maintaining a strategic shipbuilding base. Yet how effective an instrument the subsidy proved in maintaining strategic capacity remains questionable. Naval warship requirements held little commercial parallel. Industrial design and fabrication technologies sufficient for commercial work were not sufficient for naval construction. How much shipyard capacity should be maintained for a defence industrial base, and of what quality it should be, remained unresolved questions. If the Navy turned an eye to economy, only the most technically advanced shipyards were suitable for naval work, but this logic was not reflected in the subsidy.

Instead, the subsidy plan funded up to 40 per cent of the approved Canadian cost of construction. After 31 March 1963, the subsidy would decline to 35 per cent. These rates allowed Canadian yards to produce new vessels for Canadian owners at a cost comparable to those of United Kingdom yards. The subsidy produced a large volume of orders for commercial ships and increased employment throughout the industry. From its introduction in 1961 to its suspension in 1965, the shipbuilding subsidy contributed some 30 per cent of capital expenditures, or \$96.5 million, towards new construction in Canada.⁷⁴ As intended, the subsidy aided primarily Great Lakes and coastal shipping interests. For example, of the 142,000 tons of shipping receiving the subsidy in 1963-64, some 96,000 tons were suitable only for these trades.⁷⁵

71. The planning of the subsidy can be followed in *ibid.*, pt 1 and 2, Oestreicher to Plumptre, 17 August 1961; Steele to Isbister, 17 August 1961; Baldwin to Steele, 21 August 1961; memo to file, Steele, 22 August 1961; Donald Fleming, Minister of Finance, to Balcer, 5 September 1961.

72. *Ibid.*, pt. 2, P. C. 1260-1960, 8 September 1961 and record of Cabinet decision, 11 September 1961.

73. CSSRA, minutes of directors' meeting, 6-7 January 1960. McLagan had been a leading proponent of countervailing protection for Canadian shipbuilding throughout the 1950s and gained a national platform when appointed president of the CMA in 1960. The CMA's call for protection is contrary to the general perception of CMA as the champion of unfettered competitive free enterprise. See John Porter, *The Vertical Mosaic* (Toronto, 1971), 306.

74. See NA, RG 19, Vol. 4950, f. 3910-02 pt. 2, draft Cab. Doc. 1186-69.

75. *Woods-Gordon Report*, App. 1, 18.

Unlike previous policies, which mainly favoured the shipyards of the CSSRA, the subsidy helped many small yards throughout the country. This indiscriminate assistance is a common problem of industrial policy.⁷⁶ It reflects the conflicting reasons for government intervention. The necessity of gaining Cabinet approval entailed broadening political support by increasing the scope of protection. Though politically attractive, this rendered the intervention counterproductive by rewarding mediocrity and inefficiency. Just as naval building hampered productivity by reducing the consequences of comparative advantage and competition, so did the subsidy. Instead of encouraging rationalisation and consolidation of capacity, the subsidy maintained overcapacity. The social consequences of enhanced or continuous employment and the state client-patron relationship cannot be ignored. The subsidy did little, however, to enhance the commercial viability of the marginal producers and, more importantly, probably hampered that of the most competitive yards by maintaining a satisfactory internal rate of return for both. The subsidy consequently delayed rationalisation.

vi

Rationalisation would soon come. For some time, defence expenditures under the Conservatives had only maintained naval vessel replacement requirements. The Conservatives began their government with the announcement of an austerity programme. In concert with reduced expenditures came a general reconsideration of defence procurement policies. The cancellation of the Avro Arrow jet interceptor was the most dramatic demonstration of a fundamental change in defence procurement policy.⁷⁷ This marked acceptance of the argument that Canada could not afford to develop and produce major weapons systems solely for domestic requirements. Therefore, the Department of Defence Production moved toward favouring manufacture for export and greater production sharing with the United States and other NATO allies.⁷⁸ Delays in the original naval construction programmes and a great deal of confusion over the appropriate structure of the Navy tempered the consequences of this reconsideration. As a stop-gap measure to maintain production facilities and replace obsolescent vessels, six modified versions of the 1949-model ASW frigate were ordered through the late 1950s.

Planning the Navy's appropriate future fleet structure occupied many minds during the late 1950s. Rapid technical change in electronics and tactical weapons systems caused fleet maintenance and replacement costs to increase exponentially. The pace of technical change was so rapid that even the most recent additions to the fleet, the St. Laurent ASW frigates, required elaborate modification in electronics and armament within two years of becoming operational. Shifts in tactical requirements, however, were less dramatic than those required to fit the new strategic equation. Tailoring the fleet for the "new look" nuclear strategy fell subject to the delay, confusion, and vacillation that

76. See *Economics of Industrial Policy*, 49-64.

77. See Greig Stewart, *Shutting Down the National Dream. A. V. Roe and the Tragedy of the Avro Arrow* (Toronto, 1988), 254-63.

78. For a discussion of this decision and its long-term consequences, see RG 49, Vol. 1, G. W. Hunter, Deputy Minister of Defence Production, to C. M. Drury, Minister of Defence Production, December 1965, file "Organization of Defence Production."

became the hallmark of defence policy under Diefenbaker. Unlike the later nuclear weapons controversy which typified, if not toppled, the later Diefenbaker administration, the question of naval force structure was resolved under the Conservatives.

Navy studies of future fleet requirements sought a balanced fleet: the specialisation heralded by the St. Laurent ASW frigates was demonstrably unstable. In the process of upgrading the Navy, air defence and surface fleet units had been neglected. This imbalance required redress and less expensive ASW vessels had to be developed. Although the Navy wished to retain some construction capacity in Canada, it no longer sought to be the primary subsidiser of the shipbuilding industry. Its search for a more cost-effective and more balanced fleet culminated in the July 1961 *Report of the Ad Hoc Committee on Naval Objectives*.⁷⁹ Chaired by the Vice Chief of the Naval Staff, Rear Admiral Jeffry V. Brock, the committee argued that, to maintain current force levels, naval capital expenditures would have to approach their Korean-era high of roughly 1 per cent of GNP and remain there for fifteen years.⁸⁰ These capital funds were to help modernise and reshape the fleet. Throughout 1962 and the early months of 1963, the Conservative government accepted specific recommendations of the Brock report and ordered vessels accordingly. Most notably, Cabinet authorised the construction of three conventional submarines and eight general-purpose frigates. The latter would be built in Canada. In keeping with the new emphasis on defence-sharing agreements, however, Cabinet agreed to construction of the submarines in the United Kingdom, where construction costs were expected to be half those in Canada. Thus, the principle of self-reliance adopted in 1948 was overturned. These were only the first of new realities for the shipbuilding industry.

vii

Challenges to the naval building policy emerged within months of its acceptance. The austerity programme announced by the newly elected Liberal government in June of 1963 suspended all government capital projects pending a full review of government expenditures. Serving as the ideological basis for this was the Glassco Royal Commission on Government Organization which, after focusing marked attention to the practices of the Departments of Defence, Transport, and Defence Production, had recommended sweeping reforms in government procurement and industrial support strategies.⁸¹ The second challenge was posed by the new government's commitment to social programmes. For the new Minister of Finance, Walter Gordon, these questions were inextricably intertwined: the defence agenda could not be allowed to disrupt the social. Gordon's influence within Cabinet ensured that his agenda became the nation's, and

79. (Ottawa, 1961).

80. The report arrived at this figure in the following manner: the Korean-era expenditure accounted for about 1.24 per cent of Gross National Production, after which it declined to a low of .70 per cent, with a ten-year average of .98 per cent. Therefore, the report's blueprint for the future entailed maintaining expenditures at approximately 1 per cent of GNP through 1974. In dollar terms, from 1961 to 1974, expenditures would increase from approximately \$275 million to peak in 1972 at \$525 million. See report of the ad hoc committee, Chap. 8, 95-98.

81. On the influence of the Glassco royal commission on subsequent reforms within the Defence department, see Paul Hellyer, *Damn the Torpedoes* (Toronto, 1990), 36-38.

this affected shipbuilding policy in two ways. Both the naval building programme and the shipbuilding subsidy came under review and revision. While Gordon and the Glassco commission set the reform agenda, they did not provide the final blueprint for action. The particulars depended upon the predilections of the people involved, and Pearson's ministers grabbed the reins of reform forcibly. Jack Pickersgill at Transport, C. M. (Bud) Drury at Defence Production, and Paul Hellyer at Defence — all set about fundamentally altering the structures of their departments.

The shipbuilding subsidy was high on the agenda of reform. As Gordon informed Pickersgill, the subsidy further expanded construction capacity when there were already too many inefficient yards. Further, the subsidy ran counter to the government's objective of reducing total expenditures. As Gordon saw it, the subsidy was best ended now, while the economy was buoyant and employment in the yards high.⁸² Pickersgill was prepared to reform the subsidy programme, scrap the Maritime Commission, and impose other policy modifications at Transport. The reforms at Transport were forestalled, however, by more fundamental changes in defence and procurement policy.⁸³

The first of these policy redirections was motivated primarily by financial considerations. The Korean War build-up had sparked annual expenditures of \$1.8 billion in current dollars. The defence budget had been progressively reduced so that, by 1964, annual expenditures in current dollars were \$1.5 billion. Inflation had taken its toll on capital outlays over this period, and manpower and overhead costs had increased their share of the budget accordingly. Gordon directed, however, that the defence budget not rise above the \$1.5 billion level and, if possible, be reduced.⁸⁴

Hellyer immediately began rethinking the strategic roles and structures of the Canadian forces. Eventually this resulted in the unification of the armed forces. To guide reform, Hellyer ordered the preparation of numerous strategic estimates, the most influential of which was the "Report of the Ad Hoc Committee on Defence Policy," completed in December of 1963. Though the product of a committee, the report largely reflected the opinions of Dr. R. J. Sutherland, the Chief of Operational Research, Defence Research Board. According to Sutherland, the "post-war period in world affairs" had "come to an end." International tensions were easing and it was time to end the emphasis on tactical war fighting and build stable deterrence.⁸⁵ Canada's defence policy, argued the Sutherland report, should recognise that security was best guaranteed through collective arrangements, diplomacy, and stable deterrence. Force structures ought to be modified to enhance that object. Given the nature of the nuclear equation, reserve forces, mobilisation planning, and tactical fighting forces were now far less important. This

82. NA, MG 32, B34, Vol. 8, f. 53-2, Gordon to Pickersgill, 1 June 1964.

83. NA, Records of Treasury Board, RG 55 C, Vol. 862, f. "Transport," H. O. R. Hindley to G. F. D. Davidson, Director of the Bureau of Government Organization, 11 June 1964. The bureau was established under the Privy Council and Treasury Board to examine the various measures recommended by the Glassco Commission.

84. David Patrick Burke, "The Unification of the Canadian Armed Forces: The Politics of Defense in the Pearson Administration," PhD diss., Harvard University, 1975, 115 and 128-29.

85. NA, RG 24, 83-84/167, Vol. 7366, f. DRB 170-80/175 pt. 3, Sutherland to the heads of DRB, February 1964.

premise resulted in what became known as the "forces-in-being" strategic posture, whereby the armed forces were primarily a means to the end of deterring war. Should deterrence fail, the strategic exchange of nuclear weapons would devastate the mobilisation base; hence, there was little to be achieved by maintaining redundant production capacity. If war came, it would be fought primarily by existing forces. Sutherland's views were not unique to him; they were experiencing a certain vogue at the Pentagon, where they proved of only transitory consequence. In Canada, however, the Minister of Defence drew freely from Sutherland's report in drafting the 1964 White Paper on Defence, which served as the foundation of Canadian defence policy through the decade.⁸⁶

The changing bases of Canadian defence policy required a refashioning of the forces. Hellyer, formerly the Liberal opposition defence critic, had once argued that the forces should be made more suitable for small-scale conventional or "brushfire" wars.⁸⁷ Nevertheless, it was precisely such flexibility which Hellyer now vetoed for the Navy. For some years following the Brock report, the Navy had been developing the general purpose frigate (GPF). It would be the first major fleet class introduced since the St. Laurent class. Unlike the antisubmarine-specific St. Laurents, the GPF was designed for surface missions such as troop lift, evacuation, or gun-fire and air-defence support for United Nations operations. Whatever the debatable merits of such a vessel, its development promised a reinfusion of capital into the faltering shipbuilding industry. On 22 October 1963, however, Hellyer informed the Shipbuilder's Association that purchase of the GPF would not proceed.⁸⁸ Instead, as a means of buoying shipbuilding demand, the Department of Transport would bring its building programme forward by authorising construction of several more vessels above the five already authorised in the 1964-65 budget. These vessels entailed only 25 per cent of the cost of the proposed naval programme but provided a comparable level of shipyard employment.⁸⁹ The minister's cancellation announcement of the GPF argued that the ships were too specialised for Canada's needs. It was an argument that concealed a greater concern and a more important decision: the entire naval building programme proposed in the Brock report, of which the GPF formed only part, had been resoundingly rejected by the government. Thus the cancellation of the GPF indicated that the Navy would follow a far different blueprint, but one that at present remained unwritten.

At the same time defence policy was being recast, the government was also reforming its methods of procurement. At Defence Production, Bud Drury received authority from the Prime Minister to redesign government procurement practices which, in part, meant organising all government purchasing along uniform principles. In time this led to Defence Production being divided into the Department of Industry, which was responsible for development assistance, and Supply and Services, which dealt with contract administration of government purchases. Progress toward these changes in the case of shipbuilding involved the deliberations of the Interdepartmental Committee on

86. Hellyer, *Damn the Torpedoes*, 34-35.

87. Paul Hellyer, "The Liberal Party and National Defence," *Canadian Commentator* (April 1961): 5-6 and 9.

88. CSSRA, minutes, 22 October 1963.

89. NA, MG 32, B34, Vol. 150, f. 50-15 (1963), Baldwin to Pickersgill, 7 October 1963.

Shipbuilding, formed by Cabinet in May of 1964.⁹⁰ Two main tasks faced the committee: to assess first the future capacity of the industry to provide for government vessel requirements, and secondly its competitiveness and ability to meet domestic and international demand. Because of industry protests over the cancellation of the GPF, the committee was directed initially to address the methods and requirements for government procurement of ships, after which it would turn its attention to considering a comprehensive development assistance programme, comprised of subsidies, tax incentives, and other means of encouraging commercial demand.⁹¹

Reorganising government procurement quickly took shape. With little debate, responsibility for shipbuilding was transferred to the newly formed Department of Industry from the Maritime Commission. By June of 1964, other changes were sufficiently advanced for the Shipbuilding Association to be informed that it had "reached the end of an epoch — there would be no more multi-ship naval programs allocated across the country . . ."⁹² From its beginning, allocation had increased the costs of naval construction.⁹³ Instead of the previous cost-plus or target incentive approaches, national competition for naval contracts, based on firm pricing, would follow. As the director of the Shipbuilding Branch at Defence Production had previously forecast, these new measures would reintroduce the "keen edge of competition."⁹⁴ The perspective at Defence Production, however, was one of a patron toward an expensive client. As purchaser, the department was now more concerned with limiting costs than with maintaining or developing the shipbuilding industry.

viii

For most of the 1950s, naval budgets and defence production programmes controlled Canadian industrial policy as applied to the shipbuilding industry. National allocation of high-technology naval work ensured that the entire industry, or at least the major yards represented by the Shipbuilder's Association, shared the benefits. Begun largely as a means to preserve the industry, this policy had expanded well beyond its original goals, but it also proved a stunningly successful form of bureaucratic patronage. When the Maritime Commission assigned work along a regional basis, it rarely encountered resistance from federal politicians.⁹⁵

90. Ibid., Vol. 8, f. 53-2 pt. 2, Baldwin to minister, March 1964.

91. See the discussion of Drury's recommendations in *ibid.*, Vol. 150, f. 50-15, George McIlraith, Minister of Transport, to Walter Gordon, Minister of Finance, 7 November 1963. There is a summary of Drury's comments and a discussion of policy development in NA, RG 19, Vol. 4422, f. 9175-04-5, vol. 1, J. J. McKennirey, Department of Defence Production, to Oestreicher, 26 August 1964.

92. Quoted from CSSRA, minutes, 19 June 1964; on the full progress of the intergovernmental review, see NA, RG 19, Vol. 4422, f. 9175-04-5.

93. NA, RG 46, Vol. 632, f. 201-42-1 pt 1, report of J. C. Rutledge, Deputy Director of the Shipbuilding Branch of the Department of Defence Production to D. A. Golden, Deputy Minister, 21 October 1954.

94. Ibid., Box 769, f. 300-313, J. C. Rutledge, Director of the Shipbuilding Branch of the Department of Defence Production, draft comments to Technical Section of the CSSRA, 21 February 1961.

95. Author's interview with Louis Audette.

Turning its attention towards a long-term policy for the shipbuilding industry, the interdepartmental committee concluded that overcapacity in Canadian shipyards was being artificially maintained by government contracts and subsidies. Conditions in the industry had changed little since 1949. Its review noted that, after fifteen years of contract allocation, limited competition, and subsidies, the industry remained technically backward, lacked sufficient design capacity, employed obsolescent fabrication techniques, and was not competitive internationally.⁹⁶ Dependency on government aid was particularly the case of the major yards. The eight largest yards received some 86 per cent of all government work between 1957 and 1964. This work accounted for between 25 and 40 per cent of total demand.⁹⁷

As the new Deputy Minister of Industry, Simon Reisman, explained, the task at hand involved developing an appropriate strategy for helping those firms "too heavily concentrated on defence goods" to diversify towards "civil markets."⁹⁸ The committee discounted calls for the continuation of allocation to preserve the defence industrial base. It countered that increased competition would not cause the shipbuilding industry to disappear; indeed, increased exposure to competition "should result in a more viable industry which is the most suitable defence base."⁹⁹ In rejecting allocation, the new policy sought to reduce government costs and enhance commercial competitiveness. Nevertheless, as a purchaser of naval vessels, the government held a monopsony. Although not all shipbuilders required the means to build advanced warships, allocation spread that capacity among the yards. If only the most competitive could now vie for naval shipbuilding contracts, commercial rivalries would remain more acute because of the previous policy of allocation.

Such dilemmas were not apparent in the deliberations of the committee. They were perhaps dead issues because only the most productive yards were to survive the new policies. After examining production practices in American shipyards, the director of the Shipbuilding Branch at the Department of Industry argued the Canadian shipbuilding industry had to become more innovative, efficient, and diversified. Naval-commercial product differentiation, the scale and scope of Canadian firms versus the American, differing corporate structures, and the American pork-barrel practice of regional distribution of naval contracts — none was addressed by the committee.

In any event, it moved to curtail the massive assistance of the past. Instead, government procurement and a reduced subsidy would protect the domestic market for shipbuilders in the short run. This led to the decision, announced in January of 1966, to restrict to Canadian ships the coastal trade in the St. Lawrence River below Montréal

96. NA, MG 32, B34, Vol. 8, f. 53-2, "The Canadian Shipbuilding Industry and its Relations to Government," and reply, August 1965.

97. See NA, RG 19, Vol. 4422, f. 9175-04-5, vol. 1, "Government of Canada Procurement and the Canadian Shipbuilding Industry," joint report of the Departments of Defence Production and Industry, 18 December 1964.

98. NA, RG 49, Vol. 1, file "Organization of Defence Production," Reisman to Drury, 13 December 1965.

99. NA, RG 46, Vol. 1207, f. 3051-1 pt. 2, "Shipbuilding Subsidy Policy. Outline of Problems to be Solved," 9 August 1965.

and in the Great Lakes. Furthermore, the Canadian Vessels Construction Assistance Act would be repealed, thus ending the most lucrative tax incentives for ship construction in Canada.¹⁰⁰ These latter steps were part of the Department of Industry's effort to develop a long-term policy aimed at improving the efficiency of the industry to a level "equivalent to similar secondary industry and eventually to a level whereby it could hopefully export to international markets of a class within its competence."¹⁰¹ It was, however, peculiar to argue that the domestic playing field required levelling in order to make the industry internationally competitive.

It is perhaps interesting to see the results of these policy changes. Gone was the effort to maintain marginal producers. In short, the Department of Industry set about to rationalise the shipbuilding industry.¹⁰² Employment in Canadian shipyards declined from about thirteen thousand in 1966 to roughly seventy-two hundred in 1970. Without government tax incentives to compete with foreign producers, no domestic shipyard produced a ship for export between 1962 and 1972. The total value of new ship construction fell from roughly \$150 million in 1967 to \$80 million in 1970. Between 1964 and 1970, virtually no major commercial ship was completed in Canada.¹⁰³ Four leading yards withdrew from shipbuilding. Competition proved a dubious development policy. Regardless of whatever entrepreneurial failures intensified this decline, the adjustment strategy adopted by the Department of Industry clearly neither revitalised the shipyards nor recaptured the export market.

ix

Government policy from its initial laissez-faire phase to management through allocation and subsidy, and finally in a return to free-market theory, interwove interests of economic orthodoxy and national security. Primacy among these interests varied over time. The abortive free-enterprise period between 1943 and 1946 gave way to the limited protection introduced by the Maritime Commission in the period 1947-50. Defence concerns dominated both government policy and production demand from 1950 through 1957. Tenuous efforts to wean the industry off the defence dollar proved limited until the introduction of direct subsidies in 1961. Opposition to subsidies and reconsideration of the basic approach to government ship procurement resulted in the 1965 decision to

100. See the recommendation of these steps in NA, MG 32, B34, Vol. 8, f. 53-2-21-1 pt. 2, "Report of Interdepartmental Committee on Shipbuilding Subsidies," 6 December 1965.

101. See summary in NA, RG 19, Vol. 4950, f. 3910-02, vol. 2, Cab. Doc. 1186-1969, 10 December 1969; NA, MG 32, B34, Vol. 160, f. 53-2-21 pt. 1; NA, RG 46, Vol. 4, f. 3051-1, report of the Interdepartmental Committee on Shipbuilding Subsidies, 8 December 1965; NA, RG 46, Vol. 1169, file "Shipbuilding Subsidies," record of Cabinet decision, 17 January 1966.

102. The role of "new" thinking in the federal government through this period of transition can be gleaned from the following preliminary but suggestive works: Joseph Wearing, *The L-Shaped Party: The Liberal Party of Canada, 1958-1980* (Toronto, 1981) and David E. Smith, "Patronage in Britain and Canada: An Historical Perspective," *Journal of Canadian Studies* 22:2 (Summer 1987): 34-54.

103. See "A National Strategy for the Shipbuilding, Ship Repairing and Allied Marine Industries," a brief prepared by the Canadian Shipbuilding and Ship Repairing Association, May 1977.

redirect both programmes. Thus development support and procurement were separated. The ambiguous military ties among shipping, shipbuilding, and national defence which helped shape policies throughout the period 1947-65 were broken irrevocably.

The forms of protection afforded the industry by defence production had relatively few precedents in Canadian history. The well-documented protection of Canada's manufacturing base through the National Policy, new and old, is not a ready parallel. By 1947, the shipbuilding industry viewed itself primarily as an export manufacturer. The decline of the export market resulted from several changes, only a few of which the industry could respond to independently. Revitalisation of foreign yards, international monetary controls through exchange blocs, and commodity controls placed Canadian shipbuilders at a disadvantage to which they could not fully respond without government assistance. The state's response proved exceedingly limited as these constrictions tightened. Had defence requirements not escalated so dramatically in June of 1950, the immediate postwar fate of the industry would have been markedly different. The fundamental revisions of policy that came in 1965 eliminated most of the extraordinary protection extended during the cold war and cast the industry into competition unparalleled since 1939.

Given the deep-seated and contradictory commitments within the federal apparatus, long-term harmony between the interests of the state and industry was unlikely. It has been argued that "competition is something of which producers have only as much as they cannot eliminate."¹⁰⁴ The shifting foundations of state support were endured by marginal and advanced producers alike during the heyday of defence production. As a lobby, these groups proved most effective in having the government accept their arguments about contract particulars and the spreading of defence work. While the national security argument held sway, the Shipbuilder's Association gained greatly from this relationship. Naturally, these gains were at the expense of smaller competitors and the taxpayer but the association was captive to the shifting and contradictory interests of the state.

The state relied on the private sector for technological talent to help fulfil strategic military requirements. As those requirements changed, so naturally did the state's relationship with the industry. The transition in part reflected a maturation of the defence production bureaucracy. Contractual relationships established through ad hoc organisations in the frenetic build-up of 1949-50 gave way to relationships based on neo-classical theory, an established bureaucracy, and a growing concern for sound financial management of government procurement. To what degree the new policy reintroduced political patronage awaits examination.¹⁰⁵

With the intention of the kindling of an economic rivalry premised on public interest, the government sought to employ the market as a check on perceived undue public expenses incurred in naval construction and in subsidies. The state acknowledged little

104. D. Lynch, *The Concentration of Economic Forces* (New York, 1946), 109.

105. On the continuing politics of naval procurement, see Donald Boudreault, "Une nouvelle politique industrielle pour nos chantiers maritimes," in *The McNaughton Papers*, ed. Peter Jones (Toronto, 1991): 1:89-100.

fiduciary responsibility for building and maintaining the industry through defence contracting. Weaning the industry off the easy defence dollar became a task primarily of the marketplace. Through default and design, government intervention had helped shift the industry away from international sales towards a domestic market initially dominated by military production. With no little irony, the state's new development policy adopted in 1965 was premised on construction for export. Government policy, it must be accepted, never found a solution to the problem of making the shipbuilding industry internationally competitive.

Admittedly, the focus on government policy adopted in this essay neglects the dynamic entrepreneurial strategies adopted by various firms. The degree to which individual shipyards deviated from, or sought additional protection to, that sought through the Shipbuilding Association, awaits examination. Equally, the intricacies of political patronage have received little attention here. Even so, the foundations of government policy identified must underpin studies of those more specialised topics.

Before the state deemed the industry essential for national defence, shipbuilding received only very limited protection in the face of international barriers. The expedients of defence production associated with the heightening of the cold war brought unprecedented protection and, for the state, steadily increasing costs. In accord with neo-classical economic theory, the costs associated with such industrial protection were warranted by *raisons d'état*. The profligate and unexamined defence procurement policies adopted at a time of rising international tensions and war could only be challenged as tensions eased. They left a legacy of commercially nonviable shipyards and greatly expanded naval requirements. They left almost no legacy of an integrated military-industrial complex. When it suited the state, the bonds to the industry, typified by the Maritime Commission and the lucrative contractual relationships of naval building, were pared away with little national debate or protest, as the state set new industrial and social objectives, generally regarded as more progressive.